



# Company Report: NetEase (NTES US)

公司报告: 网易 (NTES US)

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## Chu Liu Xiang may Bring New Growth Momentum, "Buy"

楚留香的推出能带来新的增长动力, "买入"

- **NetEase's FY17 results were below expectations, with 1.2% yoy decline in non-GAAP net profit.** The Company's FY17 results were affected by weaker contributions from online games and decline in margin. Operating expenses increased due to sales discounts and promotions for e-commerce business and marketing costs for online games.
- **We cut FY18-FY19 online games revenue by 8.2%/ 8.0%, respectively.** 4Q17 online games revenue declined by 10.7% yoy due to weaker mobile game contributions from some key titles (such as Onmyoji). NetEase will introduce some new titles (such as Chu Liu Xiang, ABA Identity 5), which is expected to improve revenue growth.
- **FY18-FY20 e-commerce revenue is estimated to grow by 45.0%/ 24.0%/ 16.0%, respectively.** 4Q17 e-commerce revenue surged by 175.2% yoy thanks to marketing events (Double 11, Double 12 and Black Friday). Strong growth rate is expected to remain with the introduction of more variety of cross-border products and new brands.
- **Maintain the investment rating of "Buy" but cut the TP from US\$400.00 to US\$375.00.** We lower FY18-FY19 earnings per ADS by 4.7%/ 11.5% respectively. The new TP represents 26.2x FY18 PER, 24.1x FY19 PER and 23.0x FY20 PER.
- **网易 2017 财年业绩低于预期, 非 GAAP 净利同比下降 1.2%。** 公司 2017 财年业绩受到网络游戏贡献减弱和利润率下降的影响。由于电子商务业务的销售折扣及促销, 及网络游戏的营销成本, 而致营运开支上升。
- **我们分别下调 2018-2019 财年的网络游戏收入 8.2%/ 8.0%。** 由于一些重要游戏 (如阴阳师) 的手机游戏贡献较弱, 2017 财年第 4 季在线游戏收入同比下滑 10.7%。网易将推出一些新的游戏 (如楚留香、第五人格), 有望提高收入增长。
- **预计 2018-2020 财年电子商务收入分别增长 45.0%/ 24.0%/ 16.0%。** 由于营销活动(双 11、双 12 和黑色星期五) 的推出, 2017 财年第 4 季度电子商务收入同比大涨 175.2%。随着更多跨境产品和新品牌的推出, 预计增长率将保持强劲。
- **维持投资评级为"买入"及目标价从 400.00 美元下调至 375.00 美元。** 分别下调 2018-2019 年每 ADS 盈利预测 4.7%/ 11.5%。新目标价相当于 26.2 倍 2018 年市盈率、24.1 倍 2019 年市盈率及 23.0 倍 2020 年市盈率。

Rating:

**Buy**

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

**US\$375.00**

Revised from 原目标价:

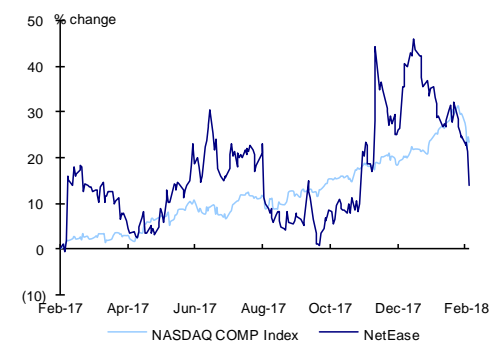
US\$400.00

ADS price ADS 价格:

US\$300.110

### Stock performance

股价表现



Change in ADS Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	25.1	28.7	51.6
Rel. % to NASDAQ Index 相对纳指变动 %	22.3	18.8	24.0
Avg. ADS price (US\$) 平均 ADS 价 (美元)	305.7	235.5	235.5

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	Earnings/ADR	Earnings/ADR	PER	BV/ADR	PBR	DP ADR	Yield	ROE
年结	收入	股东净利	每份 ADR 净利	每份 ADR 净利变	市盈率	每份 ADR	市净率	每份 ADR	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2016A	38,179	11,605	88.403	72.4	23.6	293.009	7.1	19.397	0.9	34.4
2017A	54,102	10,708	81.360	(8.0)	23.4	357.489	5.3	24.752	1.3	25.5
2018F	68,793	12,573	95.313	17.1	19.9	436.540	4.4	24.142	1.3	24.5
2019F	81,914	13,694	103.651	8.7	18.3	525.450	3.6	26.254	1.4	21.9
2020F	92,899	14,340	108.421	4.6	17.5	608.184	3.1	27.463	1.4	19.4
ADR in issue (m)	总 ADR 数 (m)		131.6		Major shareholder 大股东		Mr William Lei Ding 44.8%			
Market cap. (US\$ m)	市值 (US\$ m)		39,494.5		Free float (%) 自由流通比率 (%)		55.2			
3 month average vol.	3 个月平均成交股数 ('000)		1,553.3		FY18 Net gearing (%) FY18 净负债/股东资金 (%)		14.2			
52 Weeks high/low (US\$)	52 周高/低 (US\$)		377.640 / 252.650							

Source: the Company, Guotai Junan International.

**2017 Results Review**

**NetEase's 2017 results came in weaker than expected, with 1.2% yoy decline in non-GAAP net profit due to slower growth in online games business and decline in gross margin.** Online games revenue in 4Q17 declined by 10.7% yoy because of weaker contributions from mobile games (such as Onmyoji). There was a 175.2% yoy surge in e-commerce business revenue in 4Q17 due to the launch of sales discounts and promotional activities during double 11 and double 12 events, and Black Friday events. NetEase was successful in building its e-commerce branding with the launch of quality cross-border products to suit customer needs and preferences. Gross margin declined by 8.8 ppt yoy in FY17 because of stronger contributions from e-commerce business and a one-off royalty charge for cloud music. With similar revenue proportion of mobile games and PC games, NetEase's online game gross margin managed to stabilize.

**Table-1: NetEase's Income Statement Analysis**

RMB (Million)	FY17	FY16	YoY	Comments
Online games revenue	36,282	27,980	29.7%	Weaker online games revenue growth in 4Q17
E-commerce revenue	11,670	4,542	156.9%	Contributed by Kaolao.com and Yanxuan platforms
Advertising revenue	2,409	2,152	11.9%	
E-mail and others	3,741	3,504	6.8%	
Total net revenue	54,102	38,179	41.7%	
Gross profit	25,913	21,664	19.6%	
S&M expenses	(6,958)	(4,482)	55.2%	Higher costs related to e-commerce handing charges and shipping costs, and online game promotional costs
G&A expenses	(2,430)	(1,506)	61.4%	
R&D expenses	(4,371)	(3,047)	43.5%	
Operating profit	12,154	12,629	(3.8%)	
Investment income	362	200	81.0%	
Interest income	667	542	23.1%	
Exchange gains/ (losses)	(449)	147	N.a.	
Others	277	378	(26.7%)	
Net income	10,708	11,605	(7.7%)	
Non-GAAP net income	12,712	12,861	(1.2%)	
Earnings per ADS (RMB)	81.36	88.40	(8.0%)	
Gross margin (%)	47.9%	56.7%	(8.8ppt)	Due to e-commerce platforms with sales discounts and promotions
Operating margin (%)	22.5%	33.1%	(10.6ppt)	
Net profit margin (%)	19.8%	30.4%	(10.6ppt)	

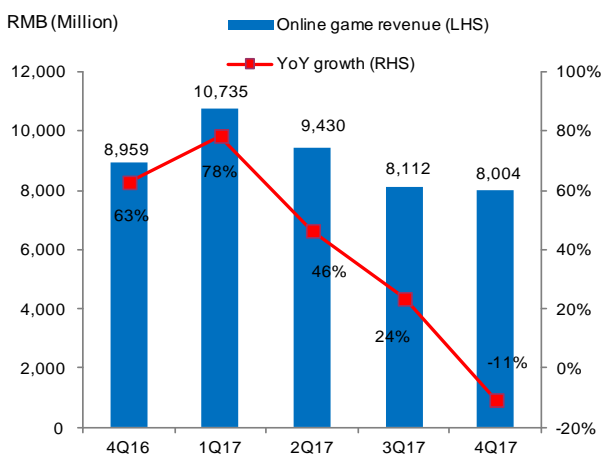
Source: the Company.

**Weaker-than-expected game revenue contributions with fierce market competition and slower monetization pace.**

NetEase's 4Q17 online games revenue dropped 10.7% yoy due to lower contributions from Onmoyoji. Although NetEase's Onmoyoji reached over 200 million players in over 69 countries, revenue contribution from this game was lower than our expectation, due to a slower monetization model. Minecraft's contribution in 4Q17 was also weaker than expected, which may be due to a different business model. Compared to the overseas versions, Minecraft in China does not require gamers to pay a download fee but allows users to pay by purchasing virtual items. NetEase launched two popular survival shooting games in 4Q17, Knives Out (荒野行动) and Terminator2: Judgment Day (终结者 2:审判日). These two games received good feedback from online game players with high rankings in China and overseas iOS online games charts, driven by its early launch with first-mover advantage and large scale promotional activities. NetEase launched advertisements on many social networks (such as Facebook) and video platforms (such as Youtube) in overseas markets to boost adoption and rankings. The registered number of users of Knives Out and Terminator 2 reached over 100 million and 80 million, respectively, signaling strong user growth in a relatively short period of time. We noticed that there are some advertisement displays (such as JD.com) and the sale of virtual items (such as decorations) within these two games. NetEase has added differentiations to its survival shooting games such as viewing angle and play modes compared to other competitors' games. However, Tencent's licensed survival shooting game PUBG regained top position in China's iOS online game chart in Feb. 2018 despite its slow launch, thanks to its large

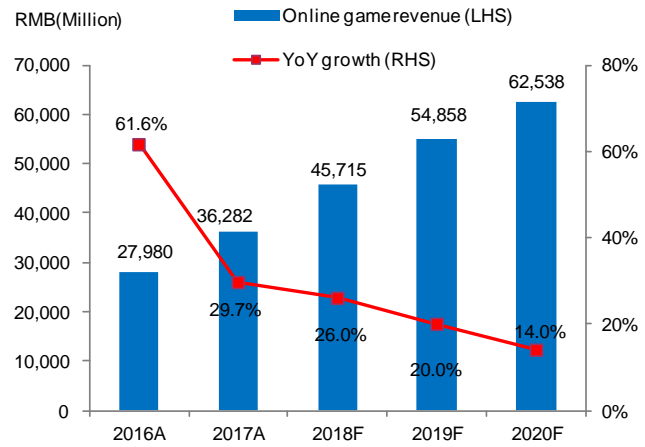
online game user base, better game quality and graphics display. Tencent's high ranking may affect NetEase's monetization of Knives Out and Terminator2: Judgment Day. NetEase has introduced expansion packs for some PC game titles including Fantasy Westward Journey Online, Westward Journey Online 2, and Tianxia III, to improve users' experience. NetEase will provide gamers with larger game portfolios and new game genres in 2018 to boost ARPU and game user growth with a broader range of players and user preferences. NetEase announced a new game pipeline in 2018 to expand its current genres with new games such as MMORPG game Chu Liu Xiang (楚留香), a 2.5D casual competitive sandbox mobile game Alive (孤岛先锋) and Asymmetrical Battle Arena (ABA) Identity 5 (第五人格). Thanks to its good story background and new playing mode, Chu Liu Xiang ranked fourth in China's iOS top grossing online game chart in Feb. 2018. Due to competition from other developers and slower-than-expected revenue growth, we cut FY18-FY19 online game revenue by 8.2%/ 9.0%, respectively. Online games gross margin stabilized at 61.4% in 4Q17, compared to 60.7% in 4Q16, due to similar revenue proportion from mobile games and PC games. Gross margin is estimated to maintain at a stable rate in FY18, with even growth from PC and mobile games.

**Figure-1: NetEase's Quarterly Online Game Revenue and YoY Growth**



Source: the Company.

**Figure-2: NetEase's Annual Online Game Revenue and YoY Growth**



Source: the Company, Guotai Junan International.

**Table-2: China's iOS Top 10 Free Online Games Chart**

Ranking	Grossing Games	Game Distributors
1	PUBG: Thrilling Battlefield	Tencent
2	PUBG: Army Attack	Tencent
3	Investiture of the Gods	Dashentuijian
4	Honor of Kings	Tencent
5	QQ Speed	Tencent
6	Knives Out	NetEase
7	Travel Frog	Hit-Point
8	Happy Elimination	Happy Elements
9	Happy Landlord	Tencent
10	Cross Fire: King of Gunfight	Tencent

Source: App Annie.

**Table-3: China's iOS Top 10 Online Grossing Games Chart**

Ranking	Grossing Games	Game Distributors
1	Honor of Kings	Tencent
2	QQ Speed	Tencent
3	Fantasy Westward Journey	NetEase
4	Chu Liu Xiang	NetEase
5	Onmyoji	NetEase

6	Knives Out	Tencent
7	Ghost	NetEase
8	King of the Chaos	Tencent
9	MU: Awakening	Tencent
10	Love and Producer	Nikki Inc

Source: App Annie.

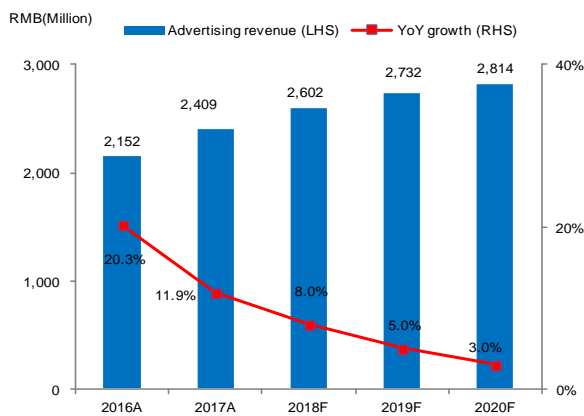
**Table-4: NetEase's Online Game Pipeline**

Game Titles	
1	Ancient Nocturne
2	The Soul of Hunter
3	QwQ
4	Blade of War
5	The Room 3 and The Room: Old Sins
6	UNO
7	World of Tanks: Blitz
8	Index
9	Super Smash Toys
10	ABA Identity 5
11	Chu Liu Xiang
12	Samsara of Soul

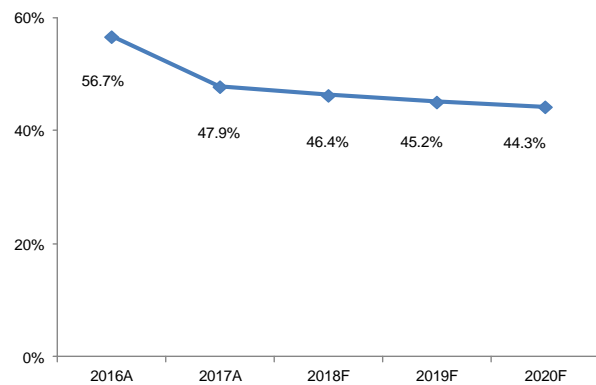
Source: the Company.

**E-commerce business to benefit from the lowering of import tax rate for some consumable goods.** NetEase's e-commerce revenue grew 175.2% yoy in 4Q17 thanks to e-commerce platforms (Kaola.com and Yanxuan) with the launch of sales events and promotional activities during double 11, double 12 and Black Friday events. E-commerce has become NetEase's second largest revenue contributor. Kaola.com has introduced more variety of cross border products and brands to increase the product range to suit consumers' preferences. The trim of import tax rate by the Ministry of Finance of the PRC is set to help sales of cross-border products in China and benefit Koala.com. We revise up e-commerce revenue in FY18-FY19 by 4.0%/ 7.5% respectively.

**Figure-3: NetEase's Annual Advertising Revenue and YoY Growth**      **Figure-4: NetEase's Gross Profit Margin**



Source: the Company, Guotai Junan International.



Source: the Company, Guotai Junan International.

## Profit Revision

**We cut FY18-FY19 earnings per ADS by 4.7%/ 11.5%, respectively.** NetEase has shown slower revenue growth in online games business in 4Q17 but it is estimated to improve in 1Q18 with the introduction of new genres and game pipeline. Tencent's new launch of PUBG may affect NetEase's monetization pace. Due to lower-than-expected online game revenue growth and fierce market competition, we cut FY18-FY19 online games revenue estimations by 8.2%/ 9.0%, respectively. E-commerce business is expected to maintain strong growth in FY18 with the launch of more variety of products and the lowering of import tax rate. We revise up FY18-FY19 e-commerce revenue by 4.0%/ 7.5%, respectively.

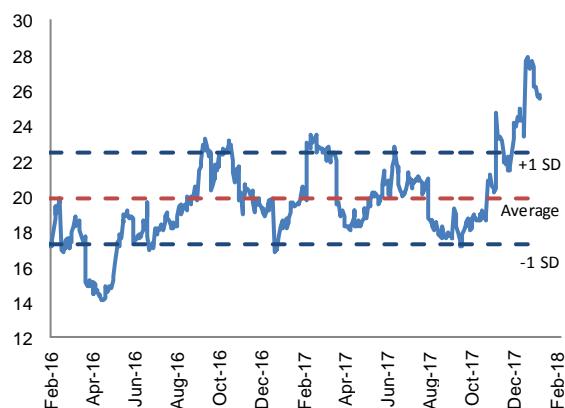
**Table-5: Financial Estimations Revisions**

RMB (Million)	OLD			NEW			CHANGE		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Online games revenue	60,284	70,426	n.a.	45,715	54,858	62,538	(8.2%)	(9.0%)	n.a.
Advertising services revenue	2,732	2,814	n.a.	2,602	2,732	2,814	0.0%	0.0%	n.a.
E-commerce	19,519	22,331	n.a.	16,922	20,983	24,341	4.0%	7.5%	n.a.
Email and others	3,341	3,207	n.a.	3,554	3,341	3,207	0.0%	0.0%	n.a.
Total net revenue	85,876	98,778	n.a.	68,793	81,914	92,899	(4.8%)	(4.6%)	n.a.
Net profit	15,478	17,086	n.a.	12,573	13,694	14,340	(4.7%)	(11.5%)	n.a.
Earnings per ADS (RMB)	117.120	129.226	n.a.	95.313	103.651	108.421	(4.7%)	(11.5%)	n.a.

## Valuation

**Maintain the "Buy" investment rating but trim the TP from US\$400.00 to US\$375.00.** We expect NetEase to show a rebound in online games revenue growth in 2018 driven by the launch of popular game titles in domestic and overseas markets. Many of NetEase's games have received a good response with high rankings in many locations, and overseas revenue contribution is estimated to increase in the coming quarters. We lower the Company's TP from US\$400.00 to US\$375.00. The new TP represents 26.2x FY18 PER, 24.1x FY19 PER and 23.0x FY20 PER.

**Figure-5: NetEase's PE Graph**



Source: Bloomberg.

**Table-6: Peers Comparison**

Company	Ticker	Currency	Price	PER(x)			PBR(x)			ROE(%)	ROA(%)
				17F	18F	19F	17F	18F	19F	18F	18F
<b>US Online Game Companies</b>											
Changyou	CYOU US	USD	27.870	13.5	10.7	11.4	1.1	1.3	1.1	11.1	14.3
Electronic Arts Inc	EA US	USD	122.280	38.3	28.5	24.6	9.3	8.7	7.1	30.6	21.7
Activision Blizzard Inc	ATVI US	USD	68.030	189.0	26.1	22.7	5.4	4.6	3.9	16.1	10.0
NetEase	NTES US	USD	300.110	24.9	18.7	15.8	5.6	4.3	3.5	24.8	17.0
Simple Average				66.4	21.0	18.6	5.3	4.7	3.9	20.7	15.7
Weighted Average				93.9	24.4	21.0	6.5	5.7	4.7	22.9	15.5
<b>HK Online Game Companies</b>											
Tencent	00259 HK	HKD	422.400	49.5	38.0	29.3	13.7	10.1	7.7	30.2	14.9
Boyaa Interactive Int.	00434 HK	HKD	3.020	6.0	5.7	5.8	0.7	0.6	0.6	11.3	10.2
IGG	00799 HK	HKD	8.150	8.3	6.7	6.1	4.7	3.5	2.8	58.0	44.5
Netdragon	00777 HK	HKD	18.740	120.1	37.1	28.4	1.8	1.8	1.7	4.7	3.5
Simple Average				46.0	21.9	17.4	5.2	4.0	3.2	26.0	18.2
Weighted Average				49.6	37.9	29.2	13.7	10.1	7.6	30.2	14.9
<b>Advertising Companies</b>											
Sohu.Com Inc	SOHU US	USD	34.210	n.a.	n.a.	n.a.	1.8	2.8	2.5	n.a.	(3.0)
Weibo	WB US	USD	129.660	81.0	46.9	32.9	23.8	16.2	10.8	40.2	32.1
Bitauto Holdings	BITA US	USD	29.450	39.6	13.5	10.3	1.0	1.0	0.9	7.3	2.7
Cheetah Mobile	CMCM US	USD	13.550	21.1	15.3	15.7	3.4	2.8	2.3	n.a.	10.3
58.com	WUBA US	USD	72.660	46.3	30.1	21.4	3.7	3.3	2.9	n.a.	7.9
Soufun	SFUN US	USD	5.000	96.2	21.6	16.8	3.8	3.2	2.6	n.a.	6.7
Phoenix New Media	FENG US	USD	5.630	45.8	38.0	29.6	1.2	1.2	1.2	3.2	1.8
Sina	SINA US	USD	112.250	51.0	27.5	20.8	2.8	2.4	2.2	8.6	7.3
Facebook	FB US	USD	173.150	31.5	19.6	16.6	6.8	5.5	4.2	24.2	22.3
Simple Average				51.6	26.6	20.5	5.4	4.3	3.3	16.7	9.8
Weighted Average				34.9	21.3	17.6	7.4	5.9	4.4	24.8	22.0
<b>E-commerce Companies</b>											
Alibaba	BABA US	USD	179.250	n.a.	34.2	26.7	11.2	7.7	6.1	20.6	11.6
VIPSHOP	VIPS US	USD	17.490	n.a.	20.9	16.0	5.2	5.0	3.8	24.2	7.4
EBay	EBAY US	USD	42.150	n.a.	18.5	16.0	5.4	5.6	4.9	25.9	8.9
JD.com	JD US	USD	44.550	15.7	51.7	31.8	9.2	8.1	6.5	9.4	2.3
AMAZON	MZNS US	USD	1,414.510	12.7	86.2	57.7	24.7	19.2	13.9	13.2	2.7
Gome Electrical Appliances	00493 HK	HKD	0.900	n.a.	26.5	20.9	0.7	0.7	0.7	2.9	0.9
Simple Average				14.2	39.7	28.2	9.4	7.7	6.0	16.1	5.6
Weighted Average				12.9	62.6	43.3	18.2	13.9	10.3	16.2	6.2
<b>Search Engine Companies</b>											
Alphabet Inc	GOOG US	USD	1054.140	57.7	21.1	17.5	4.8	3.9	3.2	16.7	14.7
Baidu Inc - Spon Adr	BIDU US	USD	225.600	28.9	23.0	18.5	4.3	3.6	3.1	15.6	9.0
Simple Average				43.3	22.0	18.0	4.6	3.8	3.1	16.2	11.9
Weighted Average				54.9	21.3	17.6	4.8	3.9	3.2	16.6	14.1
Overall Average				44.3	26.2	20.5	6.0	4.9	3.9	19.1	12.3
Overall Weighted Average				49.2	33.5	25.7	10.1	7.9	6.0	22.1	14.6

Source: Bloomberg, Guotai Junan International.

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F	Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Online games	27,980	36,282	45,715	54,858	62,538	Property & equipment, net	2,420	3,769	4,905	6,449	5,694
Advertising services	2,152	2,409	2,602	2,732	2,814	Time deposits	550	100	85	72	61
e-commerce	4,542	11,670	16,922	20,983	24,341	Others	5,679	5,214	5,498	5,687	5,891
Email and others	3,504	3,741	3,554	3,341	3,207	Total Non-current Assets	8,648	9,084	10,489	12,209	11,646
Total Revenue	38,179	54,102	68,793	81,914	92,899	Time deposits	19,361	30,603	32,134	33,740	35,427
Cost of revenue	(16,515)	(28,189)	(36,903)	(44,906)	(51,713)	Prepayments and other current assets	3,698	3,816	4,159	4,534	4,942
Gross profit	21,664	25,913	31,890	37,007	41,186	Short-term investments	11,582	9,743	10,620	11,575	12,617
S&G expenses	(4,482)	(6,958)	(9,012)	(10,895)	(12,541)	Cash & Cash Equivalents	5,439	2,764	7,149	8,935	11,104
G&A expenses	(1,506)	(2,430)	(3,233)	(4,014)	(4,738)	Others	9,303	15,022	16,751	19,354	22,766
R&D expenses	(3,047)	(4,371)	(6,054)	(7,372)	(8,547)	Total Current Assets	49,383	61,948	70,813	78,139	86,855
Operating Profit	12,629	12,154	13,591	14,727	15,360	Total Assets	58,032	71,031	81,301	90,347	98,501
Investment income	200	362	453	502	543	AP	1,396	2,443	2,874	3,622	4,335
Interest income	542	667	815	958	1,041	Salary and welfare payables	1,491	2,189	1,313	1,025	799
Exchange losses	147	(449)	120	128	132	Deferred revenue	7,531	6,238	5,614	5,053	4,547
Other, net	378	277	299	323	349	Others	8,758	12,881	13,710	11,049	8,220
Profit Before Tax	13,895	13,012	15,278	16,639	17,425	Total Current Liabilities	19,176	23,750	23,512	20,748	17,901
Income Tax	(2,102)	(2,162)	(2,539)	(2,765)	(2,896)	Other long term payables	0	18	19	20	21
Profit After Tax	11,793	10,849	12,739	13,874	14,529	Deferred tax liabilities	392	213	185	161	140
Non-controlling Interest	(188)	(141)	(166)	(181)	(189)	Total Non-current Liabilities	392	231	204	181	161
Shareholders' Profit / Loss	11,605	10,708	12,573	13,694	14,340	Total Liabilities	19,569	23,982	23,717	20,929	18,062
Earnings per ADS (RMB)	88.403	81.360	95.313	103.651	108.421	Share capital	2,593	2,559	2,533	2,513	2,499

Cash Flow Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Net income	11,793	10,849	12,739	13,874	14,529
Share-based compensation	990	2,004	2,465	2,958	3,550
D&A	328	802	441	575	755
Others	(263)	(263)	(304)	(310)	(331)
Change in working capital	2,640	(1,503)	(1,988)	(914)	(759)
Cash from Operating Activities	15,488	11,889	13,353	16,183	17,744
Investing activities					
CAPEX	(1,136)	(1,843)	(1,898)	(1,955)	(2,014)
Change in short term investments	(2,560)	3,125	877	956	1,042
Change in time deposits	(3,990)	(11,555)	(1,515)	(1,594)	(1,676)
AP	(6,317)	(2,976)	(4,145)	(4,475)	(4,917)
Cash from Investing Activities	(14,002)	(13,249)	(6,682)	(7,068)	(7,565)
Financing activities					
Proceeds from short term bank loans	11,355	61,333	1,987	(1,722)	(2,067)
Dividends paid to shareholders	(2,546)	(3,258)	(3,185)	(3,469)	(3,632)
Others	(11,059)	(59,378)	(1,077)	(2,127)	(2,301)
Cash from Financing Activities	(2,251)	(1,303)	(2,274)	(7,317)	(8,000)
Net Changes in Cash	(764)	(2,663)	4,397	1,797	2,179
Cash at Beg of Year	6,071	5,439	2,764	7,149	8,935
FX change	132	(13)	(12)	(11)	(11)
Cash at End of Year	5,439	2,764	7,149	8,935	11,104

Financial Ratios					
	2016A	2017A	2018F	2019F	2020F
Margins:					
Gross margin	56.7	47.9	46.4	45.2	44.3
Operating margin	33.1	22.5	19.8	18.0	16.5
Net margin	30.9	20.1	18.5	16.9	15.6
Net gearing	9.2	13.3	14.2	9.2	5.2

Source: the Company, Guotai Junan International.

### Company Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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